

## DOCKET SECTION

UNITED STATES OF AMERICA  
POSTAL RATE COMMISSION  
WASHINGTON, D.C. 20268

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POSTAL RATE COMMISSION  
OFFICE OF THE SECRETARY

Postal Rate and Fee Changes

Docket No. R97-1

### PRESIDING OFFICER'S INFORMATION REQUEST NO. 8

(December 17, 1997)

The Postal Service is requested to provide the information described below to assist in developing a record for the consideration of its request for changes in rates and fees. In order to facilitate inclusion of the requested material in the evidentiary record, the Postal Service is to have a witness attest to the accuracy of the answers and be prepared to explain to the extent necessary the basis for the answers at our hearings. The answers are to be provided on or before January 5, 1998.

1. In response to interrogatory OCA/USPS-T39-3, witness Needham provided a supplemental response on September 4, 1997, containing the statement of work (SOW) for a formal study on the quarter-mile rule. This study was due to be completed in October 1997. Please provide the written report and any other results of the study.
2. Refer to the attached Table 1.
  - a. Please explain the method the Postal Service has used to develop the annual volumes of Special Handling transactions in Column 1.
  - b. Please explain the method the Postal Service has used to develop the annual revenue from Special Handling transactions in Column 9.
3. Refer to the attached Table 1, Column 1. Special Handling volume has declined from 3,749,000 in FY 1980 to 67,000 in FY 1996 (a 98% decrease). Is the Postal

Service aware of factors other than price that may have caused the dramatic reduction in the use of Special Handling?

4. Refer to the attached Table 1.

a. Do the annual volumes in Column 1 include the volumes of Special Handling used by the Postal Service itself?

b. Please provide the USPS Special Handling transactions for all years in Table 1.

c. Please explain the method used to estimate the annual volume of USPS Special Handling transactions if that method is different from the method used to develop the annual volume of Special Handling transactions from all other sources.

5. Refer to the attached Table 1, Columns 1-6. Although there is a clear downward trend in the volume of Special Handling, costs fluctuate almost randomly. In the 90's (FY 1990 - FY 1996), the volume has declined from 329,000 to 67,000 (an 80% decrease), yet costs have risen from \$103,000 to \$1,245,000 (a 1,109% increase.) Please explain this counterintuitive phenomenon which has caused the cost per piece to increase from 31.3 cents in 1990 to \$18.58 in 1996 (a 5,837% increase).

6. Refer to the attached Table 1, Column 3.

a. Please provide the number of IOCS tallies used to develop the costs for Special Handling for each fiscal year from 1990 to 1996.

b. The costs in this column include neither delivery nor transportation costs. Please provide any studies that have been done to determine the cost of preferential handling of a Special Handling piece in dispatch, transportation, and delivery (see Response of witness Needham to Interrogatories DBP/USPS-21 e, f and b).

7. The window service cost per piece for Special Handling has increased from 14.1 cents in FY 1980 to \$7.17 in FY 1996 (a 4,972% increase). Please discuss the factors that have led to that result.

8. In FY 1996, the Window Service cost for Special Handling was \$7.17 per piece, which is nearly 40 percent of total cost per piece. Please describe, in detail, the Window Service activities that are performed for a Special Handling parcel and explain how this differs from an ordinary Standard B parcel. Please explain why the cost for Window Service is so high relative to total cost per piece.

9. Please describe, in detail, the differences in processing, transportation and delivery between a Special Handling parcel and an identical parcel without Special Handling.

10. Refer to Testimony of witness Degen (USPS-T-12), Table 6, "Estimated Costs and Associated Confidence Limits By Direct Cost Category (NEW methodology)" (Revised 10/17/97), and Table 2 (OLD methodology). Special Handling is not listed separately in these tables. Please provide the estimated coefficients of variation, and the lower and upper 95 percent confidence limits for Special Handling, using the methods in Tables 2 and 6.

11. Refer to LR H-172, "Derivation of After-Rates Fixed Weight Price Indices," Spreadsheet STASP96A.WK4, "Standard A Single Piece." Please provide the source of the rate "3.25" in Cells BULK:V22 through BULK:V26.

12. Refer to LR H-295, "Diskette Relating to Revisions of Dr. Tolley, USPS-T-6," Spreadsheet SF\_R97AR.WK4. Please provide the source of the Mailgram FWI entry of "\$0.566841" in cell FWIs:X8.

13. Refer to LR H-172, "Derivation of After-Rates Fixed Weight Price Indices," Spreadsheet COD96A.WK4 "Special Services - COD." Please provide the source of figure 2,765.514 which appears in the formulas in Cells A:C15 and A:C16. Also explain the difference between the total FY 1996 COD volume of 5,397,651 transactions in Cell A:C24 and the total COD transactions of 4,860,462 reported in Table K-2 of LR H-145 "Billing Determinants, Fiscal Year 1996."

14. Refer to LR H-312 "Diskette of Lotus Spreadsheets Provided by Dr. Tolley in Response to POIR No. 7," Spreadsheet D3N\_NL.WK4. Please confirm that the following changes should be made in TYBR nonletter discounts for Standard A Nonprofit mail:

- a. Cell A:D9, figure \$0.029 should be changed to \$0.000.
- b. Cell A:D17, figure \$0.013758 should be changed to \$0.024.
- c. Cell A:D21, figure \$0.021074 should be changed to \$0.024.

15. Refer to Exhibit USPS-30B, page 43, "Summary of Estimated Fiscal Year 1998 After Rates Finances," (revised 9/19/97), Line 48, "Other Income" (217,242). Please provide an itemized list of the components which make up this sum. Also include account numbers, descriptions, and base year and TYBR amounts.

16. According to witness Needham's response to POIR No. 5, Question 2, RPW volume figures for Certified Mail include return receipt for merchandise transactions. In LR H-295, "Diskette Relating to Revisions of Dr. Tolley, USPS-T-6," Spreadsheets VV\_R97.WK4, Cells Data:BS15 through Data:BS22 and VV\_R97AR.WK4, Cells Data:BU15 through Data:BU22, witness Tolley inputs in his volume forecasting model quarterly RPW Certified Mail volume data for the period 1995Q3 through 1997Q2. These volume data are used by witness Tolley to develop the base year volume for Certified Mail.

a. Please confirm that the TYBR and TYAR forecasts of Certified Mail are overstated because RPW volume data, which include return receipt for merchandise volumes, have been used in the base year.

b. Please provide corrected quarterly RPW Certified Mail volume data for LR H-295, Spreadsheets VV\_R97.WK4, Cells Data:BS15 through Data:BS22 and VV\_R97AR.WK4, Cells Data:BU15 through Data:BU22 after removing the return receipt for merchandise volumes.

17. Refer to USPS LR H-207, "Diskettes of Witness Plunkett's (USPS-T-40) Testimony and Workpapers," WP-3 "Restricted Delivery," and WP-4 "Return Receipts." According to witness Needham's response to POIR No. 5, Question 2, the RPW FY 1996 Certified Mail volume of 270,832,000 transactions used by witness Plunkett to forecast restricted delivery and return receipts for Certified Mail includes return receipt for merchandise volume. Please confirm that the Certified Mail volume of 267,814,776 transactions from FY 1996 Billing Determinants, excludes return receipt for merchandise and USPS volumes, and should be used in the forecasts of restricted delivery and return receipts.

18. Refer to Exhibit USPS-33R, page 4, "Priority Mail Delivery Confirmation Certified and Return Receipt Adjustments." Footnote 4 states that one of the factors in determining the adjustment for Certified Mail is "TYAR Volume Adjustment Factor" (1.086708931), which is calculated by dividing TYAR Certified Volume (293,118,000) by 1996 Certified Volume (269,730,000). According to witness Needham's response to POIR No. 5, question 2, this 1996 Certified Volume (269,730,000) includes certified USPS pieces. Please confirm that the Certified Mail volume of 267,814,776 transactions from FY 1996 Billing Determinants, excludes certified USPS pieces, and should be used instead.

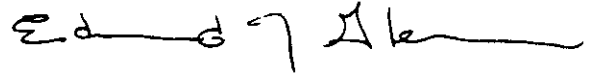
19. Refer to USPS LR H-207, "Diskette of Witness Plunkett's (USPS-T-40) Testimony and Workpapers, WP-4, "Return Receipts." Please explain why the TYAR Certified Mail volume (289,652,691), adjusted for Delivery Confirmation and Packaging Service, is used to forecast return receipts for Certified Mail; whereas the unadjusted TYAR Insurance volume (30,600,000) is used to forecast return receipts for insured mail.

20. In LR H-106, page VI-8 (Revised 11/2/97), column (1) contains a cost figure of \$1,096,329 for First-Class non-carrier route and carrier route presort. This figure includes the cost of letters, flats, and parcels for First-Class non-carrier route mail and the cost of letters and flats for First-Class carrier route mail. This contrasts with the corresponding cost figure in column (6) of \$1,999,683 which includes the cost of all shapes for non-carrier route First-Class mail but only letter-shape cost for carrier route First-Class mail (See USPS Response to POIR No. 7, question 9, Table 1). Please discuss the reasons for eliminating the attributable cost of carrier route flats in column (6).

21. In LR -106, page VI-8 (Revised 11/2/97), the costs in column (1) reflect the base year adjusted to reflect the Workpaper B adjustments, premium pay, and changes in cost reductions and other programs. Column (2) contains the corresponding test year cost which is used to calculate the test year escalation factor. Why did the Postal Service include adjustments for cost reductions and other programs in column (1), instead of allowing an escalation factor based on column (2) to capture all differences (including cost reductions and other programs) between the base year and the test year?

22. Assume the Postal Service had chosen to begin the LR H-106 calculations of unit cost by shape with base year unit costs rather than aggregate costs. Would this eliminate the need for the mail mix adjustment incorporated into pages II-5, III-5, and IV-5? It appears that the adjustment is only necessary when working with aggregates since it only reflects changes in aggregate cost brought about by changes in volume.

(See LR H-126, the basis for the adjustment, which calculates the Postal Service's target aggregate cost by presort category and shape using Base Year FY 1996 unit costs and FY 1997 volumes.)

A handwritten signature in black ink, appearing to read "Edward J. Gleiman". The signature is fluid and cursive, with a long horizontal stroke at the end.

Edward J. Gleiman  
Presiding Officer

**Table 1**  
**Special Handling**

Year	Volume 1/		Total Cost 2/		Cost Per Piece 3/		Revenue 4/		Revenue Per Piece 5/		Cost Coverage 6/
	Amount	Annual	Amount	Annual	Amount	Annual	Amount	Annual	Amount	Annual	
	(000)	Growth	(000)	Growth	(Cents)	Growth	(000)	Growth	(Cents)	Growth	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
1980	3,749		1,083		28.9		2,973		79.3		274.5%
1981	3,236	-13.7%	524	-51.6%	16.2	-43.9%	2,594	-12.7%	80.2	1.1%	495.0%
1982	2,649	-18.1%	865	65.1%	32.7	101.7%	2,270	-12.5%	85.7	6.9%	262.4%
1983	2,377	-10.3%	368	-57.5%	15.5	-52.6%	1,987	-12.5%	83.6	-2.5%	539.9%
1984	3,189	34.2%	563	53.0%	17.7	14.0%	1,859	-6.4%	58.3	-30.3%	330.2%
1985	1,812	-43.2%	1,157	105.5%	63.9	261.7%	1,931	3.9%	106.6	82.8%	166.9%
1986	1,359	-25.0%	126	-89.1%	9.3	-85.5%	1,771	-8.3%	130.3	22.3%	1405.6%
1987	876	-35.5%	119	-5.6%	13.6	46.5%	1,100	-37.9%	125.6	-3.6%	924.4%
1988	728	-16.9%	106	-10.9%	14.6	7.2%	1,049	-4.6%	144.1	14.8%	989.6%
1989	343	-52.9%	580	447.2%	169.1	1061.3%	674	-35.7%	196.5	36.4%	116.2%
1990	329	-4.1%	103	-82.2%	31.3	-81.5%	584	-13.4%	177.5	-9.7%	567.0%
1991	308	-6.4%	850	725.2%	276.0	781.5%	603	3.3%	195.8	10.3%	70.9%
1992	540	75.3%	1,530	80.0%	283.3	2.7%	1,057	75.3%	195.7	0.0%	69.1%
1993	421	-22.0%	2,274	48.6%	540.1	90.6%	839	-20.6%	199.3	1.8%	36.9%
1994	453	7.6%	3,112	36.9%	687.0	27.2%	863	2.9%	190.5	-4.4%	27.7%
1995	240	-47.0%	4,459	43.3%	1,857.9	170.4%	1,036	20.0%	431.7	126.6%	23.2%
1996	67	-72.1%	1,245	-72.1%	1,858.2	0.0%	397	-61.7%	592.5	37.3%	31.9%
1997F 7/	68	1.5%	1,272	2.2%	1,870.6	0.7%	421	6.0%	619.1	4.5%	33.1%
1998BR 8/	75	10.3%	1,285	1.0%	1,713.3	-8.4%	442	5.0%	589.3	-4.8%	34.4%
1998AR 9/	69	1.5%	1,283	0.9%	1,859.4	-0.6%	1,310	211.2%	1,898.6	206.7%	102.1%

1/ Source: Docket R97-1, LR H-187, Page 11 of 19.

2/ Source: CRA, Cost Segments and Components.

3/ COL(3) / COL(1) \* 100

4/ Source: Docket R97-1, LR H-187, Page 11 of 19.

5/ COL(7) / COL(1) \* 100

6/ COL(7) / COL(3)

7/ Docket R97-1, Postal Service forecast figures for FY 1997. Sources: Exhibit USPS-15C and USPS-T-30, W/P IV, Page 1 of 3 (Revised 7-23-97).

8/ Docket R97-1, Postal Service forecast figures for TYBR. Sources: Exhibit USPS-15F and USPS-T-39, WP 13 (Revised 11-20-97).

9/ Docket R97-1, Postal Service forecast figures for TYAR. Sources: Exhibit USPS-15I and USPS-T-39, WP 13 (Revised 11-20-97).